INTERNAL REVENUE SERVICE

IRS News Release

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IRS Clarifies Information Reporting of Tobacco Payments

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WASHINGTON —The Internal Revenue Service is clarifying the information reporting requirements for payments made to owners of tobacco quotas in exchange for the termination of the quotas.

For tax purposes, the termination of a tobacco quota is treated as a sale by the quota owner of an interest in land. In exchange for selling their quotas, owners may receive payments over a period of 10 years. The United States Department of Agriculture reports the gross proceeds from the sale, including payments in later years, to the quota owner on Form 1099-S in the year in which the sale takes place.

Many quota owners have asked whether they must report the gross proceeds shown on Form 1099-S in the year in which the sale takes place, even though they will receive payments in later years. The amount reported on the Form 1099-S is not necessarily the amount of taxable income the quota owner should report for the year in which the sale takes place. As explained in Notice 2005-57, an owner may report income using the “installment method.”

Under the installment method, a quota owner who receives termination payments over a number of years should report only the income received each year. For example, if in 2005 a quota owner exchanged a quota for 10 annual payments of $10,000 (equal to gross proceeds of $100,000), then the quota owner would receive a Form 1099-S reporting gross proceeds of $100,000. However, under the installment method the owner reports as income for 2005 only the gain attributable to the $10,000 annual payment received that year.

The IRS will issue technical guidance clarifying Q&A-9 of Notice 2005-57 to explain the interaction of the information reporting rules with the rules governing the quota owner’s computation of taxable income.

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